

House Subcommittee on Housing and Community Opportunity

Solving the Affordable Housing Crisis in the Gulf Coast Region Post Katrina: Why No Progress and What are the Obstacles to Success?

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**Testimony of C. Ray Nagin
Mayor, City of New Orleans**

I am C. Ray Nagin, Mayor of New Orleans, one of America's most beloved and culturally distinctive cities, and a city which is facing the challenge of recovering and rebuilding after the worst natural and man-made disaster to occur in the United States of America.

To Chair and Congresswoman Waters, distinguished members and guests of the United States House Subcommittee on Housing and Community Opportunity: Thank you for coming to New Orleans to continue your support for the rebuilding of our city. Housing is a critical and essential component of rebuilding, and we look forward to working with you to resolve our challenges.

I would like to again thank the American people, who continue to devote their time, labor and resources to the recovery of our city and the restoration of our hope. I am humbled and amazed by the spirit of compassion and goodwill that we continue to experience in this region.

I. New Orleans Pre-Katrina

I would like to take a moment to remind you of New Orleans before Hurricane Katrina and the breaching of the levees. New Orleans had a population of 455,000 residents, more than \$3 billion in construction activity, 215,000 housing units and a viable and growing Central Business District.

Tourism has long been the main economic driver of the city and, prior to Hurricane Katrina, tourism hit a record high, with 10 million visitors coming to the city in 2004 and thousands of people cruising from our port. Between January and August 2005, 6.6 million people visited our city. The economic impact of welcoming these guests was significant: \$4.9 billion in 2004 and \$4.2 billion by August of 2005.

Adding color and vitality to the city was "Hollywood South," one of the newest and most exciting activities taking place in New Orleans. It was rapidly making its mark as an

economic development driver as well, with multi-million dollar films being made in the Crescent City.

The economic landscape was also looking better for working families. We moved 38,000 people off the poverty rolls in the city. An estimated 40,000 businesses were in operation, representing \$8 billion dollars in annual revenues.

II. Hurricane Katrina's Impact

Hurricane Katrina was the largest and most costly disaster in American history. More than 1,400 Louisiana residents lost their lives. Katrina produced the first mandatory evacuation in New Orleans history, and the largest displacement of American citizens in U.S. history -- 1.3 million. More than 200,000 New Orleanians remain displaced.

It is estimated that New Orleans sustained 57 percent of all the damage in Louisiana. Pre-Katrina, there were 215,000 housing units, 188,251 of which were occupied. More than 70 percent of the occupied units -- 134,344 units -- sustained reportable damage, and 105,155 were severely damaged. Residential damage in New Orleans was \$14 billion.

Hurricane Katrina, while difficult for everyone, affected renters especially harshly. In a community where 54 percent of people rented homes, the vast majority of rental stock and work-force housing was lost. The effects of this loss continue to play out as renters trying to return home face housing shortages and skyrocketing rents and employers struggle to attract sufficient numbers of local employees. This is especially difficult for service-industry employers who form the lifeblood of this post-Katrina tourism economy.

Clearly, the residential sector was not the lone sufferer at the hand of Hurricane Katrina and the subsequent flooding. Statewide, 81,000 businesses were impacted. The City of New Orleans lost \$168 million in annual revenue, 50 percent of its operating budget. City government was forced to reduce its employees by 3,000 — half its workforce.

What the wind didn't destroy, the water did. Approximately 95 percent of the city's nearly 350 buildings were damaged at an estimated cost of more than \$400 million. This does not include equipment and inventory such as police radios and New Orleans Recreation Department supplies. For example, 700 city vehicles were lost, at a cost of \$128 million. Experts predict Katrina's final damage totals will be about \$250 billion.

Katrina affected our courts, prisons, schools, parks and playgrounds, pools and libraries. Our infrastructure, the system of physical and permanent installations that allow the city to provide basic services to its citizens, was decimated. This includes all utilities, communications, roads, bridges, water systems and drainage facilities, such as canals and pumping stations.

With 80 percent of New Orleans under water for almost a month, the damage done by the moisture was extensive, but just as harmful to our infrastructure was the damage done by the weight of the water. In all, 480 billion pounds of water poured into our city and sat for

almost a month. Simply stated, portions of the city collapsed under the weight of the water. Entire areas were pushed even further below sea level. Hundreds of miles of underground utilities -- electric, gas, water, drainage, cable and phone lines -- were damaged.

Rebuilding our below and above ground infrastructure is key to recovery in New Orleans and one of this administration's top priorities. We cannot begin to rebuild communities until we have these foundational necessities in place to support them.

III. Immediate Response to Katrina

After the hurricane, we focused on five key areas: Search and rescue of people trapped and stranded; evacuation of the Louisiana Superdome, Ernest N. Morial Convention Center and bridges; patching the levee breaks; draining the floodwaters; and recovery of the dead.

After successfully dewatering the city, we conducted environmental testing to clear any concerns about toxicity, returned utilities to a delicate but operational level and began repopulation of the city in areas with little or no damage/flooding.

IV. Where Are We Now

Within one year, all hurricane-related repairs to city street lights on all major and minor streets were completed. The city utilized two contractors to replace 2,781 emergency stop signs. By the end of 2006, we repaired and replaced a total of 7,322 street signs and repaired more than 12,000 potholes, and we have repaired more than 10,000 more this year. Since the flooding, we have also cleaned more than 3,000 storm drains and more than 617,118 feet of drain lines. In excess of 3,700 damaged parking meters are now working. And to date, approximately 8,000 vehicles have been towed from staging areas and public rights-of-way. These basic infrastructure improvements are important to creating a city where residents feel confident enough and have the resources they need to rebuild their homes and their lives.

Hurricane Katrina also led to the largest clean-up in U.S. history. It produced 35 million tons of debris, enough to fill the Louisiana Superdome more than 10 times. To date, more than 90 percent of storm related debris has been removed from the city.

Although the New Orleans Recreational Department sustained more than \$60 million in damages to parks and facilities, to date four multi-service centers, 33 playgrounds and 2 stadiums are open. Recreational centers provide safe places where young people can connect with each other and engage in physical activity. They also serve as outlets that give youth something to do and a vision for their future, helping to discourage them from acceding to lives of crime.

V. Continuing Challenges

A. Public Assistance and Funding

The slow pace and awkward bureaucratic regulation of federal funds presents a critical challenge to the recovery effort at the local level. The public infrastructure of the City of New Orleans -- including city office buildings, courts, police and fire stations, streets and playgrounds -- experienced damages estimated to be over \$1 billion. The primary resource for the reconstruction of public infrastructure is Public Assistance Funding through the Robert T. Stafford Act, which is a reimbursement program. The extent of the damage to our economy and the magnitude of the damage to our infrastructure make it impossible for us to finance our own recovery up front: no locality can be expected to have a billion dollars available for a reimbursable recovery program.

A much-needed change to the Stafford Act, therefore, would establish a definition of “catastrophic disaster” for events such as Katrina to be differentiated in scale from “major disasters,” and would amend the timeframes and formulas for assistance that a “catastrophic disaster” would call for. The extent of the devastation should determine the level of response. This trigger should automatically provide up-front funding, extend deadlines for applications for assistance, extend the 100% reimbursement time frames for emergency work, increase assistance calculations for all grant programs and make provisions for rapid delivery of operational funds for devastated jurisdictions and their critical agencies.

The State has asked that the 10 percent match requirement be waived. We concur, but it is essential that the funds made available by such a change be reallocated to the Parishes and the City of New Orleans on the basis of the formula used to allocate funds from the LRA or other funds intended to assist flooded areas.

In addition, while we appreciate the need to have State engagement, we are now well past time for the State to release funds that will jumpstart our recovery. The Louisiana Recovery Authority (LRA) has earmarked \$117 million for New Orleans from its CDBG allocations. We believe that all of these funds should be released directly to the City of New Orleans – not to any other entity – as soon as possible.

B. Limited Housing Solutions for Homeless

Hurricane Katrina and the subsequent flooding demonstrated clearly that the chronically homeless are not the only people who sometimes find themselves without a place to live. Many of our homeless citizens are temporarily homeless and, once placed in housing, can be expected to maintain their status.

Given this, the eligible uses for the McKinley Program for the Homeless should be restructured and should receive more funding. Specifically, funds are needed for down payments, utility payments and first month’s rent that will allow those who are temporarily homeless to become self-sufficient again.

C. Availability and Cost of Insurance

In the aftermath of Hurricane Katrina, many insurance companies have stopped writing policies in Louisiana or are charging exponentially higher rates than before.

Understanding that the insurance industry is regulated at the state level, we will work with the State of Louisiana to help identify short term remedies and long term solutions to this crisis.

However, we also request Congress's assistance. The Federal Government should play a role in stabilizing the private insurance market in coastal areas of the United States.

Options that should be considered include a federal reinsurance backstop; tax-free catastrophic disaster reserve accounts for insurers; tax free catastrophic disaster savings accounts for insureds; and a temporary tax credit on the value of premiums written by insurance companies on commercial properties in those areas hit hardest by Hurricanes Katrina and Rita.

D. Public Housing

Prior to Hurricane Katrina, 14,000 families lived in HUD-assisted affordable housing units. Of those, 5,000 families lived in public housing facilities and 9,000 lived in units subsidized by Housing Choice Vouchers (Section 8). The Housing Authority of New Orleans (HANO) has provided housing choice vouchers or public housing units in New Orleans and other communities for all former public housing residents.

We have sought to ensure that everyone who wants to return to New Orleans will be able to do so. As part of this effort, we have worked to assure that sufficient affordable housing units are available. I have met several times over the past 18 months with Secretary Alphonso Jackson. He committed early on that the Housing Authority of New Orleans would immediately place 1,000 units in service and that it would place another 1,000 units within 90 days. We also agreed that HANO could target the scattered site developments for redevelopment using modular technology, thereby providing 750 additional units. Subsequent to that conversation, we discussed that HANO would break ground on the redevelopment of C.J. Peete complex as soon as possible and would implement a phased re-occupancy of the Lafitte Development.

E. Louisiana Road Home Program

One of the greatest potential sources of recovery funding to our citizens is the Louisiana Road Home Program, which is designed to provide compensation of up to \$150,000 to people who owned and occupied homes in Louisiana prior to Hurricane Katrina. The program is intended as a "break-even" allowance and therefore reduces award amounts by any insurance proceeds or other government benefits received. It also implements a penalty for inadequate pre-storm insurance as well as a penalty to those who choose not to rebuild in Louisiana.

Two fundamental problems with the program make it difficult or impossible for New Orleans homeowners dependent on the proceeds of this program to rebuild.

The first problem is the exceptionally long waiting period that applicants endure while waiting for their awards to be processed. When the development of this program began, other parish presidents and I urged the use of established financial institutions, who are accustomed to managing numerous and complex financial transactions, to administer the program. We still believe that this would have provided the capacity to deliver the funds in a timelier manner than the current administrator. As of February 14, 108,163 homeowners had applied to the program. At that time, 664 closings had been held, representing 0.6% of the program's applicants.

Just as significant to our citizens is the manner in which the Road Home determines property valuation starting points when calculating a homeowner's award. The program uses pre-Katrina home values, even though costs have increased significantly since the storm and flood and pre-Katrina valuations. Using pre-Katrina values leaves homeowners significantly underfinanced for renovating and returning to their homes. The actual replacement costs should be the starting point of assistance calculations if indeed the program is designed to restore homes, neighborhoods, communities and economies devastated by the flood.

For elderly and disabled citizens, this can be especially difficult. Many elderly never updated their property and casualty insurance amounts and, thus, maintained insufficient coverage. In addition, they were not required to carry flood insurance. The end result is that they will receive inadequate funds from the Road Home Corporation for rebuilding. At almost all income levels, they will need grants through the HOME program to rebuild.

For homeowners who do not have cash resources and especially those who were not adequately insured, these are significant hurdles.

VII. Accelerating Our Recovery

We have aggressively sought to accelerate our own recovery in response to Hurricane Katrina. New Orleans is a different place than it was in 2005 — the paradigm is shifting. *We can not use traditional government and business methodologies* in a Post-Katrina environment. The Executive Level of City government has been reorganized to reflect this shift. My executive team now includes Operations, Planning & Development, Law and a new office of Recovery Management.

In addition, we have focused our own limited funding to speed up recovery and rebuilding through aid to working families, seniors and small businesses. The top recovery priorities for this administration are public safety, repopulation, infrastructure repair, responsible fiscal management and the enhancement of the quality of life for our citizens. None of those commitments can be achieved without the return of our citizens, who must have safe and affordable housing in order to come back.

Although I expect it to be several years before New Orleans is again as large as it was before Katrina, our population has grown steadily in the 18 months since the storm. According to a University of New Orleans survey, there are now between 235,000 and 250,000 people living in New Orleans.

Already, there are significant signs of recovery in our housing sector. We have issued the equivalent of seven years' worth of building permits in the 18 months since Hurricane Katrina and the floods that followed. More than 12,000 apartment units in major complexes are now on line or under construction. At least 126 affordable housing units are now in commerce and developers plan to add 2,500 residential units in the downtown area. Much of this success was possible because of the passage of the GO Zone Act and the extension of key provisions to 2010, helping apartment owners make much needed units available. I would like to thank Congressman William Jefferson and Congressman Jim McCrery for their support on this effort.

And I have committed to leveraging the limited resources we control to accelerate our recovery. Last year, with the cooperation of the City Council, we were able to change ordinances to allow us to use approximately \$30 million of our own funds that were slated for other projects such as our libraries and recreational buildings to repair critical public safety facilities such as criminal court buildings. We are working to design a bond issue and a dedicated line of credit to further "prime the pump" for infrastructure repairs without waiting on federal or state dollars to trickle through the bureaucracy. We have also launched several new programs to make it easier for citizens to repair their damaged houses so they can return to their homes, their neighborhoods and our city.

A. *One New Orleans* Road Home Fast Track

In an effort to assist homeowners who have applied and are awaiting their Road Home compensation checks, we developed a complement to the Road Home program called the *One New Orleans* Road Home Fast Track program. The *One New Orleans* Road Home Fast Track program enables New Orleans citizens to begin their home repair work while waiting for their proceeds from the Louisiana Road Home program.

The two-year pilot *One New Orleans* Road Home Fast Track program provides construction loans to accelerate neighborhood revitalization projects throughout Orleans Parish. Homeowners may borrow up to \$50,000 to renovate their homes in Orleans Parish. Homeowners must qualify for the loans; the city pays closing costs as well as the interest for six months on the amount of the homeowner's expected Louisiana Road Home award up to \$50,000. Homeowners pledge to repay the loan upon receipt of their Road Home awards.

The program was created by using \$11 million in CDBG funds and locally generated dollars. Two local banks matched the city's investment 5-to-1 and began administering the program in late January.

B. Gutting/Remediation

Many homeowners whose properties were destroyed as a result of Hurricanes Katrina and Rita cannot afford to hire contractors to do the work necessary to gut or demolish their damaged homes.

We created two programs during the development of this year's budget to address this issue. Our Gutting and Remediation program will use \$15 million in grant funds to gut and board up to 5,000 homes. This program targets seniors and low- to moderate-income families.

The demolition program, which addresses the need to demolish certain heavily-damaged properties, will use \$5 million in grant monies to pay for 10,000 demolitions by the end of 2007.

C. Post-Katrina Adjudicated Property Program

These programs work alongside our Post-Katrina Adjudicated Property Program, which will provide affordable housing at scale. The Post-Katrina Adjudicated Property Program returns blighted, adjudicated or LRA-purchased properties to commerce. The New Orleans Redevelopment Authority (NORA) will aggregate and bundle housing stock for residential and neighborhood commercial redevelopment, issue blight bonds and work to ensure ongoing historic and community equity is maintained in New Orleans's unique and treasured neighborhoods.

This program will provide affordable workforce housing units built to community style. It will target teachers, first responders and low income home buyers who will be able to own the homes through lease purchase agreements and with Fannie Mae Mortgage assistance. Developers will work on bundles of 250-500 units at a time, with 70-80 percent being sold at affordable rates and 20-30 percent obtaining market rates.

Through the Post-Katrina Adjudicated Property Program, 2,500 abandoned and blighted properties were awarded to non-profit community and private developers in August 2006. Between 4,000 and 10,000 properties are expected to be awarded by the New Orleans Redevelopment Authority (NORA) by the end of 2007.

D. Office of Recovery Management

As we accelerate our recovery, it will be led by our Office of Recovery Management, which is being directed by Dr. Edward Blakely, a renowned scholar, urban planner and redevelopment strategist.

The office will guide recovery and set strategy. It also will coordinate all Federal funds for the Parish and will interact with and be the primary contact for entities such as the LRA, FEMA, HUD, Fannie Mae and many others.

This staff will work to ensure that residents are able to return and that affordable housing is available to them when they do so. Among the key positions in the department are a manager of infrastructure management, a manager of population resettlement and a manager of strategic planning and liaison with city planners. The department also includes the roles of community development specialist and neighborhood design specialist.

E. Citywide Planning

Citywide planning is nearly completed and includes three phases:

i. Phase I – Revisioning for Recovery

This phase was centered on the Bring New Orleans Back Commission, which I convened 30 days after Katrina's landfall.

Key focus areas for the commission were land use, flood protection, public transit, culture, education, healthcare and economic development and governmental effectiveness.

The commission gave its final presentation in December 2005.

ii. Phase II – Neighborhood and Citywide Recovery Planning

The New Orleans City Council, the Rockefeller Foundation and the Greater New Orleans Foundation funded this phase. It involved the development of 13 district plans by people living in those districts with support from top national planning firms. These district plans have been knitted together with a set of city-wide strategies, implementation and financing recommendations. The Unified Plan has involved citizens in New Orleans and the diaspora in unprecedented levels of public participation throughout its process. Two weeks ago, the final recommendations received resounding support in the third and final Community Congress meeting of more than 1300 citizens in four cities across the country.

iii. Phase III – Comprehensive Master Plan with accompanying CZO

The Unified Plan will be presented first to the City Planning Commission, then to the City Council and lastly to my office. It will then become the official blueprint for the City's recovery strategy, and will inform completion of the City's Master Plan and a comprehensive overhaul of the City Zoning Ordinance (CZO).

VIII. Close

As a New Orleans native and as Mayor of this great city, I am encouraged by the progress we are achieving toward some degree of normalcy. But our city continues to struggle on a daily basis as we try to help our citizens. We all know that far too many have not yet

found a way to come home and that monumental tasks lie ahead in rebuilding the infrastructure and housing that will support their needs.

New Orleans is poised for a wonderful recovery. But to ensure that this City returns fully, that it incorporates the diversity of populations and experience and that it maintains not only its cultural legacy but its contemporary cultural essence, we must ensure that there is a place for everyone. That can best happen when we have unwavering federal support alongside our commitment to continue to stretch every dollar, dime and penny as far as we possibly can.

It has been 18 months since Hurricanes Katrina and Rita and the flooding that followed and our citizens are tired, frustrated and angry. Worst of all, some are losing hope. We need systemic, meaningful change now.

Ladies and gentlemen, thank you for allowing me to speak with you on the status of our recovery and the challenges we face -- the challenges the nation faces -- here. I believe the policies and legislation we propose will accelerate our recovery and assist any other city that faces a disaster of catastrophic proportions. With your assistance, our hard work and the good will of the American people, we will succeed in rebuilding New Orleans, this jewel among America's great cities.